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GOVERNOR DAVIS ANNOUNCES ANOTHER RESTRUCTURED LONG TERM ENERGY CONTRACT 06/10/2003

Nearly \$850 Million Slashed from Contracts in Addition to Better Terms

SACRAMENTO

Governor Gray Davis today announced that the Department of Water Resources (DWR) has successfully restructured its 10-year power contract with Allegheny Energy Supply Company, cutting its costs by \$836 million.

"This renegotiated contract provides a better product at lower cost," Gov. Davis said. "This is further evidence that we are getting our energy future under control."

The restructuring provides a combination of pricing and volume reduction over the last eight years of the 10-year deal. Prices for off-peak power have been reduced from \$61 a megawatt hour to \$60 in 2004, then to \$59 in 2005, and to \$58 thereafter. Volumes of power also have been reduced from 1,000 megawatts during 2005 through 2011 to 750 megawatts in 2005 and 800 megawatts during 2006 through 2011.

The new contract's total cost is estimated to be \$3.4 billion. The original contract cost is approximately \$4.2 billion.

In addition, the new contract improves reliability and the operational flexibility, (reducing the amount of must-take energy), adds termination rights for non-deliveries of power, adds anti-gaming provisions, and allows DWR to assign the contract to a credit-worthy utility.

As part of the restructuring, the California Public Utilities Commission and the Electric Oversight Board have agreed to withdraw their complaints against Allegheny before the Federal Energy Regulatory Commission. The agreement also settles a lawsuit filed in January by DWR against Allegheny.

To date, the state has successfully renegotiated 30 long-term power agreements with 15 counter-parties for a total savings of more than \$6 billion. DWR's long-term power contract portfolio is presently valued at \$33 billion.



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DWR began purchasing power on behalf of customers of California's three investor-owned utilities on January 17, 2001. The Department was successful at stabilizing the energy market for the utilities to resume their day-to-day power buying responsibilities on January 1, 2003. Although not actively purchasing power on the market, the Department continues to manage its portfolio of long-term contracts.

The department's long-term power contracts - including the Allegheny contract - are available on the DWR's California Energy Resources Scheduling Division Web site at www.cers.water.ca.gov.

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